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SUBJECT: MACAU'S 2008 INVESTMENT CLIMATE STATEMENT

REF: 07 STATE 158802

¶1. The following is the 2008 Investment Climate Statement for the Macau Special Administrative Region.

A.1 Openness to Foreign Investment

¶2. Macau became a Special Administrative Region (SAR) of the People's Republic of China on December 20, 1999. Macau's status since reverting to Chinese sovereignty is defined in the Sino-Portuguese Joint Declaration (1987) and the Basic Law, Macau's constitution. Under the concept of "One Country, Two Systems" articulated in these documents, Macau is promised a high degree of autonomy in economic matters and its economic system is to remain unchanged for 50 years. Since 1999, the Macau Government has maintained a transparent, non-discriminatory and free market economy. Macau has separate membership in the World Trade Organization (WTO).

¶3. The Government hopes to diversify Macau's economy by attracting foreign investment and is committed to maintaining an investor-friendly environment. Corporate taxes are low. The tax rate is 12 percent for a company's net profits greater than US\$37,500 (300,000 Patacas). For net profits less than US\$37,500, the tax ranges from 3 percent to 12 percent. The top personal tax rate is 12 percent.

¶4. In 2002, the Government ended a long-standing gaming monopoly, awarding two gaming concessions to consortia with U.S. interests. This opening has encouraged very substantial U.S. investment in casinos and hotels, and has spurred exceptionally rapid economic growth over the last few years. Macau is positioning itself to be a regional center for gaming, incentive travel, conventions and tourism.

¶5. Macau and the PRC implemented a free trade agreement, the Closer Economic Partnership Arrangement (CEPA), on January 1, 2004. The agreement is similar to the Hong Kong-PRC CEPA. As of 2007, it provided open markets for all Macau-origin products and preferential treatment for 28 service sectors. In December 2005, the Government inaugurated the cross-border industrial zone located between northern part of Macau and Zhuhai. Manufacturers have begun operating in the industrial zone, including one U.S. manufacturer of gaming tools.

¶6. Macau is heavily dependent on the gaming sector and tourism industries. In addition, a single product category, textiles and apparel, accounts for approximately 64.9 percent of its goods exports. Macau's textile and apparel exports decreased by 14.1

percent for the first ten months of 2007, resulting from the elimination of the textile quota system at the end of 2004.

¶17. Foreign firms and individuals are free to establish companies, branches and representative offices without discrimination or undue regulation in Macau. There are no restrictions on the ownership of such establishments. Company directors are not required to be citizens of, or resident in, Macau.

¶18. The Government is liberalizing the telecommunications sector under a law passed in August 2001. Macau has liberalized the mobile phone market and Internet services. It has issued three mobile telephone licenses to two foreign companies and one local firm. In March 2005, the Government issued a license operating a Code Division Multiple Access (CDMA) network. In October 2006, the Government issued three 3G licenses. 3G operators began providing service in October 2007.

¶19. Certain requirements are imposed on three professional services sectors as described below. Under Macau law (Decree Law 14/95/M, 22/96/M and 22/97/M), qualified professionals and executives may apply for the right of temporary residency.

i) Education - An individual applying to establish a school must have a Macau Certificate of Identity or have the right to reside in Macau. The principal of a school must be a Macau resident.

ii) Newspapers and Magazines - Applicants must first apply for business registration and register with the Government Information Bureau as an organization or an individual. The publisher of a newspaper or magazine must be a Macau resident or have the right to reside in Macau.

iii) Legal Services - Lawyers from foreign jurisdictions who seek to practice Macau law must first obtain residency in Macau. They also must pass an examination before they can register with the Lawyer's Association, a self-regulatory body. The examination is given in

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Chinese or Portuguese. After passing the examination, foreign lawyers are required to serve 18-month internship before they are able to practice law in Macau.

A.2 Conversion and Transfer Policies

¶110. Profits and other funds associated with an investment, including investment capital, earnings, loan repayments, lease payments, and capital gains, can be freely converted and remitted. The domestic currency, Macau Official Pataca (MOP), is pegged to the Hong Kong Dollar at 1.03 and indirectly to the U.S. Dollar at an exchange rate of approximately MOP8 = US\$1. The Monetary Authority of Macau, the de facto central bank, is committed to exchange rate stability through maintenance of the peg to the Hong Kong Dollar.

¶111. Although Macau imposes no restrictions either on capital flows or foreign exchange operations, exporters are required to convert 40 percent of foreign currency earnings into MOP. This legal requirement is not applied to tourism services.

A.3 Expropriation and Compensation

¶112. The U.S. Consulate General is not aware of any expropriation actions. Expropriation of property may occur if it is in the public interest. In such cases, the Macau SAR Government will exchange the private property with an equivalent public property based on the valuation and conditions of the property. The exchange of property is in accordance with established principles of international law. There is no remunerative compensation.

A.4 Dispute Settlement

¶113. The U.S. Consulate General is not aware of any investor-state disputes involving U.S. or other foreign investors or contractors

and the SAR Government. Private investment disputes are normally handled in the courts or via private negotiation. Alternatively, disputes may be referred to the Hong Kong International Arbitration Center. Macau has an arbitration law (Decree 55/98/M), which adopts the United Nations Commission on International Trade Law (UNCITRAL) model law for international commercial arbitration. The Macau SAR Government accepts international arbitration of investment disputes between itself and investors.

¶14. Macau's legal system is based on the rule of law and the independence of the judiciary. Macau has commercial and bankruptcy laws (Decree 40/99/M). Courts in Macau include the Court of Final Appeal, Intermediate Courts and Primary Courts. There is also an Administrative Court, which has jurisdiction over administrative and tax cases. These provide an effective means for enforcing property and contractual rights. Commercial and bankruptcy laws are written under the Macau Commercial Code (Decree 40/99/M).

A.5 Performance Requirements and Incentives

¶15. To attract foreign investment, the Macau SAR Government offers investment incentives to investors on a national treatment basis. These incentives are contained in Decrees 23/98/M and 49/85/M and provided if companies can fulfill at least one of the following purposes: promoting economic diversification, contributing to promotion of exports to new unrestricted markets, promoting added value within their activity's value chain, or contributing to technical modernization. There is no requirement that nationals own shares. These incentives are categorized as fiscal incentives, financial incentives, and export diversification incentives.

¶16. Fiscal incentives include full or partial exemption from profit/corporate tax, industrial tax, property tax, stamp duty for transfer of properties, and consumption tax. The tax incentives are consistent with the WTO Agreement on Subsidies and Countervailing Measures as they are neither export subsidies nor import substitution subsidies as defined in the WTO Agreement. Financial incentives include government-funded interest subsidies (ranging from 4-6 percent) on private bank Pataca loans for buying/leasing new equipment or construction/leasing of industrial buildings. Export diversification incentives include subsidies given to the companies and trade associations, who attend the trade promotion activities organized by Macau Trade and Investment Promotion

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Institute. The companies have to be registered with the Economic Services before they are entitled the subsidies to cover fully or partially their costs on rental of exhibition space, decoration costs of exhibition booths, publication cost, production cost of audio-visual materials, etc. In addition, Macau provides other subsidies for the installation of anti-pollution equipment.

A.6 Right to Private Ownership and Establishment

¶17. Macau law and regulations provide for the right of foreign and domestic private entities to establish, acquire and dispose of interests in business enterprises.

A.7 Protection of Property Rights

¶18. Macau is a member of the World Intellectual Property Organization. Macau has acceded to the Bern Convention for the Protection of Literary and Artistic Works. Patents and trademarks are registered under Decree 97/99/M. Macau's copyright laws are TRIPS-compatible and government offices are required to use only licensed software. The Macau SAR Government devotes considerable attention to intellectual property rights enforcement and coordinates with copyright holders. Source Identification Codes are stamped on all optical discs produced in Macau. Macau Economic Services (MES) uses an expedited prosecution arrangement to speed up

punishment of accused pirate retailers.

¶19. The Macau Government has devoted considerable resources to combating optical disc piracy in recent years and claims to have closed down all illicit optical disc production lines. Signal piracy remains problematic, with significant piracy of television signals (and much U.S.-origin program content). The Macau Government also does not have a clear position on whether there is criminal liability for commercial end-use piracy of copyrighted works. The Consulate General continues to raise these issues with Macau officials.

A.8 Transparency of the Regulatory System

¶20. The Government has transparent policies and laws that establish clear rules and do not unnecessarily impede investment. The basic elements of a competition policy are set out in Macau's 1999 Commercial Code.

A.9 Efficient Capital Markets and Portfolio Investment

¶21. Macau allows free flows of financial resources. Foreign investors can obtain credit in the local financial market. At present, there are 28 financial institutions in Macau, including 12 local banks and 16 branches of banks incorporated outside Macau. In addition, there are eleven moneychangers, two cash remittance companies, two financial intermediaries, five exchange counters and one representative office of a financial institution. These institutions provide a range of credit instruments. Banks with capital originally from Mainland China and Portugal have a combined market share of about 66.7 percent of total deposits in the banking system. Total deposits amounted to US\$22.3 billion in September ¶2007. In September 2007, banks in Macau maintained a capital adequacy ratio at 14.22 percent, well above the minimum 8 percent recommended by the Bank for International Settlements. Accounting systems in Macau are consistent with international norms.

¶22. Macau has no stock market, but companies are able to seek a listing in Hong Kong's stock market. There is cooperation between Macau and Hong Kong financial regulatory authorities.

¶23. Under the Macau Insurance Ordinance, the Monetary Authority authorizes and monitors insurance companies. There are 11 life insurance companies and 13 non-life insurance companies in Macau. Total gross premium income from insurance services amounted to US\$309.7 million in 2006.

¶24. Offshore finance businesses, including credit institutions, insurers, underwriters, and offshore trust management companies, are regulated and supervised by the Monetary Authority. Profits derived from offshore activities are fully exempted from all form of taxes.

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A.10 Political Violence

¶25. Macau is politically stable. The U.S. Consulate General is not aware of any incidents in recent years involving politically motivated damage to projects or installations.

A.11 Corruption

¶26. Macau's anti-corruption agency is called the Commission Against Corruption (CCAC). The CAC has powers of arrest and detention. Its budget and manpower have been increased in recent years. The number of complaints of corruption handled by CCAC has increased significantly as a result of these changes, and an accompanying public outreach campaign.

¶27. The highest profile corruption charge was leveled at Macau's Secretary for Transport and Public Works, who was arrested in

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December 2006 for corruption. The court finished the trial on December 12, 2007 and is expected to hand down judgments in January ¶2008. The CCAC's overall effectiveness remains constrained by legislation limiting the scope of its authority to government - but not private - sector corruption. However, the government plans to amend in 2008 the law that would empower CAC to also investigate private sector corruption.

A.12 Bilateral Investment Agreements

¶28. Macau has signed investment protection agreements with Portugal and the Netherlands.

A.13 OPIC and Other Investment Insurance Programs

¶29. Overseas Private Investment Corporation (OPIC) coverage is not available in Macau.

A.14 Labor

¶30. Macau's unemployment rate is falling rapidly. By the end of November 2007, the jobless rate was 2.9 percent, down from a high of 6.1 percent in 2003. While the relocation of manufacturing facilities across the border to Zhuhai in Mainland China adversely affected unemployment rates, the increase in gaming facilities and hotels are positive impacting employment, and some shortages of skilled workers have developed. The government is studying proposals to resolve the human resources problem. Macau has labor importation schemes for unskilled and skilled workers who cannot be recruited locally. The Government is considering additional measures. The current migrant labor pool is approximately 81,700 out of a total workforce of 320,200. The Government is successfully using the proceeds of a 2005-implemented tax on the import of temporary workers for retraining local unemployed people.

A.15 Foreign Trade Zones/Free Trade Zones

¶31. Macau is a free port.

A.16 Foreign Direct Investment Statistics

¶32. According to the Direct Investment Statistics 2006 conducted by the Statistics and Census Service, there were 1,698 foreign direct investment companies in Macau, employing 69,334 workers. Hong Kong was the largest foreign investor in Macau, accounting for 57.2 percent of total foreign direct investment. The U.S. now exceeds China as the second largest foreign investor in Macau, accounting for 18.5 percent of foreign direct investment.

--Table 1: Stock of foreign direct investment by country, 2006,
Source: Statistics and Census Service

| Country | US\$ Million | % Share of Total |
|-----------|--------------|------------------|
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| | ----- | ----- |
|---------------|---------|-------|
| Hong Kong | 3,710.6 | 57.2 |
| United States | 1,200.5 | 18.5 |
| China | 587.9 | 9.1 |
| Portugal | 380.4 | 5.9 |

| | | |
|----------------|----------------|--------------|
| United Kingdom | 81.1 | 1.2 |
| Others | 531.6 | 8.2 |
| TOTAL | 6,492.1 | 100.0 |

Note: Total not sum due to rounding.

--Table 2: Stock of foreign direct investment by industry, 2005,
 Sources: Statistics and Census Service

| Industry | US\$ Million | %Share of Total |
|----------------------------------------------|-----------------|--------------------|
| Gaming | 4,095.8 | 63.1 |
| Banks and Securities | 1,114.6 | 17.2 |
| Industrial Protection | 366.5 | 5.6 |
| Hotels and Restaurants | 323.6 | 5.0 |
| Construction | 196.4 | 3.0 |
| Insurance | 166.5 | 2.6 |
| Transport, Storage and Communications | 136.4 | 2.1 |
| Wholesale and Retail | 63.5 | 1.0 |
| Cultural, Recreational and Other Services | 28.8 | 0.4 |
| TOTAL | 6,492.1 | 100.0 |

Note: Total not sum due to rounding.

133. Resources:

--Macao Special Administrative Region Government:

<http://www.macau.gov.mo>

--Macao Trade and Investment Promotion Institute - IPIM:

<http://www.ipim.gov.mo>

--Macau Fair & Trade Association: <http://www.macaufta.com>

--World Trade Centre Macau: <http://www.wtc-macau.com>

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